

Decision 02-08-054 August 22, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of California
Water Service Company (U 60 W), a Corporation,
for an Order Authorizing It to Increase Rates
Charged for Water Service at Each of Its
Operating Districts to Recover Increased
Operating Expenditures at Its General Office.

Application 01-09-062
(Filed September 10, 2001)

And Related Matters.

Application 01-09-063
Application 01-09-064
Application 01-09-065
Application 01-09-066
Application 01-09-067
Application 01-09-068
Application 01-09-069
Application 01-09-070
Application 01-09-071
Application 01-09-072
Application 01-09-073
Application 01-09-074

**INTERIM DECISION AUTHORIZING CREATION
OF MEMORANDUM ACCOUNT**

Summary

In this decision, we grant California Water Service Company (Cal Water) a memorandum account for costs associated with treating four well sites for contamination in the Salinas District.

Background

On May 10, 2002, Cal Water submitted a motion requesting memorandum account treatment for certain well contamination treatment costs in its Salinas District. Cal Water stated that during the summer and fall of 2001, three separate wells providing water to Salinas customers were turned off due to nitrate, uranium, and MTBE¹ contamination. In December, another well was taken out of service due to uranium contamination. Currently, in the three pressure zones in Salinas, 10 of 37 wells are out of service. Cal Water further stated that it investigated three different options for obtaining the equipment needed to decontaminate the water from four sites. Cal Water obtained bids from three prospective suppliers of ion-exchange purification equipment to treat four wells to attain minimum redundancy requirements established by the American Water Works Association and General Order 103. Of those three bids, Cal Water selected the lowest priced bid, from Basin Water Company (Basin Water), which involved leasing the needed equipment. Cal Water has leased this equipment and is currently incurring the costs associated with operating it. Cal Water estimates that on an annual basis it will pay \$611,000 to Basin Water, in addition to absorbing \$55,042.52 in capital and operating costs itself. Cal Water seeks authorization to record the amounts paid to Basin Water in a memorandum account for later ratemaking consideration by the Commission. Office of Ratepayer Advocates (ORA) supports Cal Water's request for the limited purpose of tracking the costs.

¹ Methyl-tert-butyl ether.

Discussion

The Commission has determined that memorandum accounts are appropriate when the following conditions exist:

- a. The expense is caused by an event of an exceptional nature that is not under the utility's control;
- b. The expense cannot have been reasonably foreseen in the utility's last General Rate Case (GRC) and will occur before the utility's next scheduled rate case;
- c. The expense is of a substantial nature in the amount of money involved; and
- d. The ratepayers will benefit by the memorandum account treatment.

The decontamination treatment needed for the Salinas wells meets all four standards. Cal Water is unable to control the contamination in the wells, and this level of contamination was not reasonably foreseeable in time to be incorporated into the last rate case filing. As set out in Exhibit 12, at Table 4-F, Cal Water's expected 2002 Operating Revenues at present rates for the Salinas District are \$10,913,600.00. The estimated cost of the ion-exchange treatment for these four wells is \$611,000 to Basin Water, exclusive of the \$55,042.52 in capital and operating costs Cal Water will absorb, is 5.6% of Cal Water's total operating revenues for the Salinas District. Thus, the expenses are substantial. The ratepayers will benefit from creating this memorandum account because the account will only allow Cal Water to record these costs, and the costs will be subject to ratemaking review by the Commission.

In the Southern California Water Co. Headquarters case, Decision 92-03-094 (March 31, 1992) 43 Cal. P.U.C. 2d 600, we stated that memorandum account tracking could only occur prospectively:

"It is a well established tenet of the Commission that ratemaking is done on a prospective basis. The Commission's practice is not to

authorize increased utility rates to account for previously incurred expenses, unless, before the utility incurs those expenses, the Commission has authorized the utility to book those expenses into a memorandum account or balancing account for possible future recovery in rates. This practice is consistent with the rule against retroactive ratemaking."

Therefore, we will only allow the tracking of expenses and revenue incurred after the establishment of these memorandum accounts. Because expenses for the Salinas treatment are being incurred now, this decision should be effective today.

This is an uncontested matter in which the decision grants the relief requested. Accordingly, pursuant to Section 311(g)(2) of the Public Utilities Code, the otherwise applicable 30-day period for public review and comment is being waived.

Findings of Fact

1. Cal Water is incurring unanticipated and substantial expenses in decontaminating water wells in its Salinas District.
2. The need for decontamination is not within Cal Water's control.
3. The ratepayers will benefit from establishing the memorandum account.

Conclusions of Law

1. The expenses associated with the Salinas decontamination meet our standards for memorandum account treatment.
2. The expenses associated with the Salinas decontamination should be recorded in a memorandum account for later disposition by the Commission.
3. So that amounts may be recorded immediately, this decision should be effective today.

INTERIM ORDER

Therefore, **IT IS ORDERED** that:

1. From the effective date of this order, California Water Services (Cal Water) is authorized to book the incremental expenses for ion-exchange purification equipment for four wells in the Salinas district in a memorandum account.
2. Cal Water may seek Commission consideration of the amounts in the Salinas memorandum account in its next general rate proceeding.
3. When it seeks recovery of the recorded amounts, Cal Water must file its Commission-adopted, recorded, and weather-normalized rates of return for the calendar year in which these expenses were incurred. Recovery of the amounts recorded in the Salinas memorandum account shall be allowed only to the extent recovery will not result in Cal Water exceeding its authorized rate of return in the calendar year in which the expenses were incurred.

This decision is effective today.

Dated August 22, 2002, at San Francisco, California.

LORETTA M. LYNCH
President
HENRY M. DUQUE
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners